

Iowa Legislative Fiscal Bureau

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Federal Welfare Reform Legislation

ISSUE

A summary of the impact and provisions of federal welfare reform legislation.

AFFECTED AGENCIES

Department of Human Services (DHS), Department of Workforce Development

CODE AUTHORITY

Chapter 239, Code of Iowa

CURRENT SITUATION

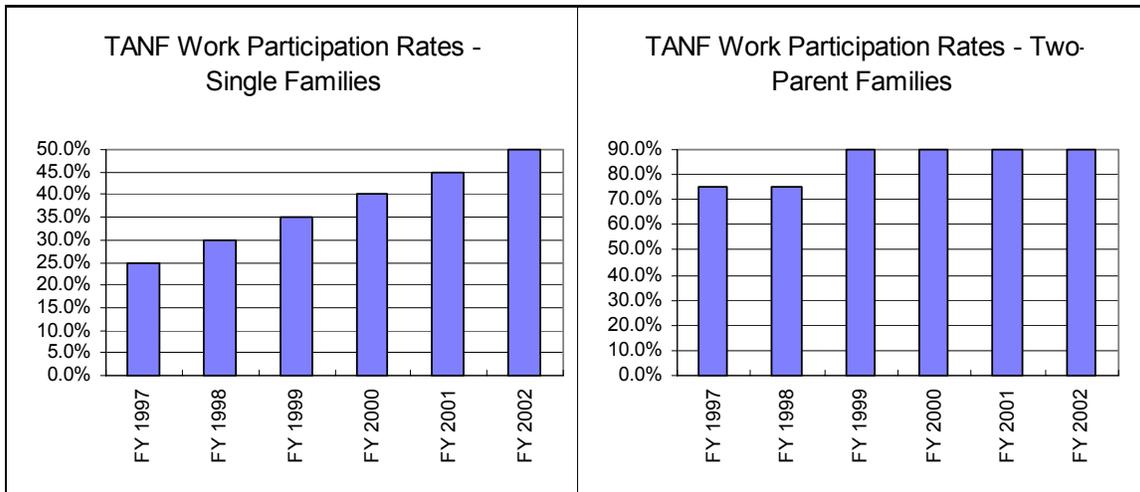
Congress passed H.R. 3734, the federal welfare reform legislation in August 1996. The legislation is currently awaiting the President's signature. This **Issue Review** will focus on the major provisions of the legislation and early assessments of the impact on Iowa. Major provisions of H.R. 3734 include:

- **Individual entitlement.** The Temporary Assistance to Needy Families (TANF) Program eliminates the individual entitlement under which the Aid to Families with Dependent Children (AFDC) Program has operated for approximately 60 years.
 - The TANF block grant is funded at a fixed amount of \$16.4 billion nationally. Three additional funding streams are included:
 - A \$1.0 billion fund rewarding states which are effective in moving people from welfare to work, keeping two-parent families together, and reducing out-of-wedlock births.
 - A \$800.0 million fund to assist states having high population growth rates.
 - A \$2.0 billion contingency fund to help states with high levels of economic distress.
- **Time limitations on assistance.** Recipients would be working after two years of assistance and there is a five-year lifetime limit on benefits. The time limitation on assistance applies nationally. Individuals would not be able to avoid time limitation by crossing state boundaries and applying for benefits in another state. Some type of national benefits clearinghouse would need to be set up to make this provision enforceable. Who would pay for this clearinghouse and how it would operate is not clear at this time.
- **Work requirements.** Adults receiving assistance under the TANF Program are required to participate in work activities within 24 months of receiving assistance. If individuals are not working, they must be participating in community service within two months of receiving benefits. States may choose to "opt-out" of

this requirement by affirmatively notifying the federal government. Two major requirements are included in the legislation -- minimum work hours per week and work participation rates. The following minimum work hours per week are specified for an individual to be counted toward the work participation rate.

	<u>One-Parent Families</u>	<u>Two-Parent Families</u>
FFY 1997-1998	20 Hours	35 Hours
FFY 1999	25 Hours	35 Hours
FFY 2000 & beyond	30 Hours	35 Hours

- Work requirements for single- and two-parent families are shown in the following graphs.



Only specified types of work activities count towards fulfilling a state’s work participation rate. **Attachment 1** contains a listing of acceptable work activities.

- **Reduction/Elimination of benefits for legal aliens.** Prior to H.R. 3734, illegal immigrants were prohibited from receiving most federal benefits. Under H.R. 3734, legal immigrants are prohibited from receiving Supplemental Security Income (SSI) and Food Stamp benefits. Under the legislation, states have the option of denying or providing Medicaid benefits to legal immigrants who are already in the U.S., unless they currently receive Medicaid because of receipt of SSI benefits. If they currently receive Medicaid because of receipt of SSI benefits, in the future they will be denied Medicaid benefits. Generally, future immigrants would be prohibited from receiving Medicaid until they become U.S. citizens.
- **Reduction in Food Stamp Program.** The Food Stamp Program would continue as an entitlement, however the maximum food stamp benefit would be 100.0% of the Thrifty Food Plan instead of the current 103.0%. Inflation adjustments in benefits would be limited (the standard deduction of \$134 per month currently indexed for inflation is fixed at \$134/month). The Food Stamp Program would continue in current form, and would not be converted to a block grant.
 - Benefits for able-bodied individuals between the ages of 18 and 50 would be limited to three months out of every three years, with the possibility of an additional three months during that time period.
 - Additional funding and flexibility for the Food Stamp Employment and Training Program has been provided in the legislation. However, the amount of increased funding is still being determined by the DHS.
- **Eligibility Standards for Supplemental Security Income (SSI).** Eligibility for SSI would be tightened for low-income children seeking SSI due to disability.

- Prior to H.R. 3734, low-income children were able to qualify for SSI benefits in one of two ways: the child is determined to have a specific medical impairment found on a listing of impairments; or the child was evaluated through an individual functional assessment and found to have an impairment not listed, but limits the child from performing age-appropriate behaviors. Under H.R. 3734, the second method for determining benefits is eliminated.
- **Consolidation of child care funding.** Existing child care funding streams (Transitional Child Care, AFDC Work-Related Child Care, and the At-Risk Child Care Program) are consolidated into one child care block grant. Entitlement status for the existing funding streams is eliminated.
- **Reduction in Social Services Block Grant (SSBG) funding.** The SSBG funds are reduced by 15.0% over current law for FY 1997. However, the FY 1996 SSBG funding was also reduced by 15.0%. The FY 1997 reduction is a continuation of the FY 1996 cut, and not an additional reduction.
- **Family Cap.** The legislation does not contain prohibitions on additional assistance for a family having another child while on public assistance. States may choose to "opt-in" to this requirement by passing legislation requiring family cap limitations.
- **Waiver Treatment.** States currently operating programs under waiver may terminate the waiver and be held harmless for accrued federal cost neutrality liabilities. Iowa's Family Investment Program (FIP) currently operates under a waiver of regulations from the federal government. The waiver allows states to deviate from AFDC regulations, within prescribed limits. States have 90 days following the conclusion of the state legislative session following federal enactment to terminate the existing waiver. This provision may be of significant benefit to Iowa which has operated under a waiver since October 1993, and may have accrued liabilities. This provision also allows the elimination of the control group which operated under the AFDC Program rules (approximately 4,000 cases).
- **Maintenance of Effort.** States must continue to spend at least 75.0% of what was spent in FY 1994 (80.0% if not meeting work activity requirements).
- **Transfer between block grants.** Funds may be transferred between the three block grants (TANF, SSBG, and Child Care Block Grant), up to 30.0% of the total.
- **Effective Date.** July 1, 1997, earlier at state option, for TANF; child care provisions are effective October 1, 1996.

IMPLICATIONS FOR IOWA

Preliminary estimates by the DHS indicate a net reduction in federal funding due to federal welfare reform legislation of \$3.9 million. Due to the recency of passage, several items with potentially substantial impact on federal funding are not clear at this point. This estimate represents a "best guess" by the Department on the impact of the legislation, but will likely change as details and interpretations are clarified. Also, estimates were prepared assuming implementation in FY 1997 and not FY 1998 because the FY 1998 budget has not yet been prepared, so no baseline comparison existed. According to the Department, continued caseload reductions in the Family Investment Program will positively benefit the federal funding loss in FY 1998.

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The largest area of negative impact is the loss in child support revenues which were used to offset the cost of FIP benefits. According to a preliminary analysis by the DHS, "...our interpretation is that under block grant funding Iowa will retain only the state share of child support recoveries rather than retaining the full collections as revenues to FIP." Although this change results in reduced child support revenues, this is offset by increases in the TANF block grant amount.

The second largest area of loss is the reduction in Title IV-A Emergency Assistance funding. During FY 1995, Title IV-A Emergency Assistance funding was used to enhance child welfare funding, and was partially responsible for the large increase in funding in that area. Formerly, Title IV-A funding had been used for the State Emergency Assistance Program. Because the change occurred in FY 1995, and was not fully completed until late in FY 1995, Iowa's base year calculation for Title IV-A federal funding does not fully

include the expansion. This results in a significant loss of Title IV-A funding. FY 1997 federal funding for Title IV-A was estimated at \$20.9 million. Under the block grant, this figure has been reduced to \$3.9 million, a loss of \$17.0 million. The \$17.0 million loss has been included in the TANF block grant Federal Funding line shown above.

The final area of lost federal funding is in the area of the Social Services Block Grant (SSBG). Federal SSBG funding was cut back in the final budget reconciliation bill for FFY 1996 by 15.0%. The reduction for FFY 1997 continues that 15.0% reduction. Although significant at \$4.6 million, this reduction was known to be likely prior to passage of welfare reform legislation.

Additional federal funding of \$8.2 million is projected during FFY 1996, although at least a portion of that amount will require a State match. Although not clear currently, the DHS hopes to be able to use additional funding appropriated in FY 1997 for child care to draw down the additional federal funding.

The other major area of additional funding is due to the base year calculations used in determining the TANF block grant. Because historical caseloads and costs were used in calculating the amount of the block grant and since implementation of State welfare reform Iowa's caseloads and overall cost have fallen, Iowa started with a higher base funding level which more than offsets the loss in Title IV-A funding.

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Attachment 1 Allowable Work Activities Under HR 3734

Allowable Work Activities: An individual must participate in one or more of the following activities to count toward the work participation rate:

1. Unsubsidized employment.
2. Subsidized private sector employment.
3. Subsidized public sector employment.
4. Work experience (including work associated with refurbishing publicly assisted housing), only if sufficient private sector employment is not available.
5. On-the-job-training.
6. Job search and job readiness assistance for up to 6 weeks. No more than 4 weeks may be consecutive. Individuals in states with unemployment at least 50% greater than the national average may participate for 12 weeks).
7. Community service programs.
8. Vocational education training (not to exceed 12 months for any individual).
9. Job skills training directly related to employment.
10. Education directly related to employment, in the case of a recipient who has not received a high school diploma or certificate of high school equivalency.
11. Satisfactory attendance at secondary school or course of study leading to GED in the case of a recipient who has not completed secondary school.
12. Provision of child care services to an individual who is participating in a community service program.

Source: NGA, NCSL, and APWA summary of HR 3734